

How Your Retirement Benefit Is Figured

As you make plans for your future, one of the questions you'll probably ask is, "How much will I get from Social Security?" There are several ways you can find out. Social Security can give you a free estimate of what your retirement benefit will be. You can obtain the request form by calling Social Security and asking for a *Request for Earnings and Benefit Estimate Statement*.

If you have access to Internet, you can obtain the request form at <http://www.ssa.gov>. Or, you can calculate your own retirement benefit using the Internet program ANYPIA. You can get to ANYPIA at <http://www.ssa.gov>. In the "Quick Index" choose "Public Information Resources."

Even with an estimate, many people still wonder exactly how their benefit is figured. Here is an explanation of just how we calculate your retirement benefit.

Steps in Figuring A Social Security Retirement Benefit

Social Security benefits are based on earnings averaged over most of a worker's lifetime. To figure out how much you will receive each month, we begin by calculating your "full retirement age" benefit. This is the benefit you would receive at your full retirement age. Currently for most people, this is age 65. However, the full retirement age will increase gradually for people born after 1937 until it reaches 67 for people born after 1959. The method for figuring the full retirement age benefit goes like this:

Step 1: We get a record of all the earnings you have had since 1951 in jobs and self-employment where you paid Social Security taxes.

Step 2: We convert all of the earnings you had from 1951 until the year you turned 60 into amounts that are approximately equal to what the earnings were worth in the year you turned 60. This is done by multiplying your real earnings by yearly "indexing factors" that are based on the changes in average wages every year.

Example: Let's say your record shows you earned \$3,000 in 1969. You turned 60 in 1994. The average wages in 1994 were approximately 4 times as high as they were in 1969. We would multiply your 1969 wages by 4 and you would get credit for \$12,000 in earnings for 1969 instead of the \$3,000 you actually earned.

For the years after you reach age 60, we use the actual earnings you had.

Step 3: From this list of converted earnings, we choose the 35 years with the highest amounts and disregard the rest of the years. If you don't have 35 years of work on your record, we use years with zero earnings to complete the total of 35 years.

Step 4: We add up the earnings for the 35 years and divide the total by 420, the number of months in 35 years, to get your average monthly earnings.

Step 5: We then apply a formula to the average monthly earnings. For people born in 1934, the formula is as follows :

- We multiply the first \$437 of your average monthly earnings by 90 percent.
- We multiply the next \$2,198 of your average monthly earnings by 32 percent.
- We multiply any remaining amount by 15 percent.

Example: Mr. Fowler has average monthly earnings of \$3,000.

We figure his benefit as follows:

$\$437 \times 90\% =$	393.30
$\$2198 \times 32\% =$	703.36
$\$3000 - 2635 = 365 \times 15\% =$	<u>+54.75</u>
	1151.41

The results are rounded down to the next lower dime, so Mr. Fowler's full retirement age benefit would be \$1151.40.

The dollar amounts in the formula change each year. We'll figure your benefits using the formula for the year you turned 62 even if you don't retire until later.

Government workers with pensions

If you also get or are eligible for a pension from work where you didn't pay Social Security taxes, usually a government job, a different formula is applied to your average monthly earnings. To find out how your full retirement age benefit is figured, contact Social Security and ask for a copy of *A Pension From Work Not Covered By Social Security* (Publication No. 05-10045).

Factors That Can Raise or Lower Your Retirement Benefit

The monthly benefit you receive from Social Security may not be the full retirement age benefit. Your actual benefit may be higher or lower than that amount if any of the following is true:

You receive benefits before age 65

You can begin to receive Social Security benefits at age 62, but at a reduced rate. Your benefit is reduced by five-ninths of one percent for each month you get benefits before age 65. This amounts to approximately a 20% reduction at age 62.

The closer you are to age 65 when benefits start, the smaller the reduction. For example, the reduction is 13-1/3 percent at age 63 and 6-2/3 percent at age 64.

You receive cost-of-living increases

You're eligible for cost-of-living benefit increases starting with the year you become 62. This is true even if you don't get benefits until 65 or even 70. Your full retirement benefit is multiplied by each yearly cost-of-living increase starting with the year you reach 62 up to the year you start getting benefits.

You delay your retirement past age 65

A person may continue working past full retirement age and not begin to receive Social Security benefits. If you choose to do this, your benefit amount will be increased by a certain percent for every month that you are past your full retirement age but not receiving benefits. These increases are automatically added to your benefit until you reach age 70.

Social Security benefits are paid in even dollar amounts, so when your final benefit amount is reached, it is rounded down to the next whole dollar.

Any Questions?

You can get more information or a benefit estimate request form by calling Social Security's toll-free number **1-800-772-1213**. People who are deaf or hard of hearing may call our toll-free "TTY" number, 1-800-325-0778, between 7 a.m. and 7 p.m. on business days. Our lines are busiest early in the week and early in the month, so if your business can wait, it's best to call at other times.

If you have a touch-tone phone, recorded information and services are available 24 hours a day, including weekends and holidays.

The Social Security Administration treats all calls confidentially—whether they're made to our toll-free numbers or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That is why we have a second Social Security representative monitor some incoming and outgoing telephone calls.

Social Security publications are now available on the Internet at <http://www.ssa.gov>.

Social Security Administration

SSA Publication No. 05-10070

May 1996

Destroy Prior Editions

ICN 467100

Unit of Issue - HD (one hundred)



Printed on recycled paper